

# Memorandum

To: Panel Members Date: October 24, 2002

From: Diana Torres, Manager  
Peter DeMauro, General Counsel Analyst: S. Godin

Subject: One-Step Agreement for **Leiner Health Products**  
(www.leiner.com)

## **CONTRACTOR:**

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
  - Company Wide: 3,800
  - In California: 890
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$331,500
- Substantial Contribution: \$0
- Total ETP Funding: \$331,500
- In-Kind Contribution: \$930,394
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Orange & Los Angeles
- Duration of Agreement: 24 months

### **SUBCONTRACTORS:**

California Training Cooperative, Irvine, California (\$337,820 for class/lab training hours in Continuous Improvement, Manufacturing Skills and Computer Skills).

California Training Cooperative, Irvine, California (\$39,780 for Project Administration).

Tru Lingua, Newport Beach, California (\$86,360 for class/lab training hours in literacy skills).

### **THIRD PARTY SERVICES:**

The Contractor's representative states that California Training Cooperative assisted in conducting the training needs assessment, design of the training program, and completion of the application. The Contractor pays a monthly fee of \$3,500 for membership in the Cooperative. The aforementioned services were provided as a membership benefit to the California Training Cooperative members. No additional fees were collected.

### **ACTIVE PROJECTS:**

The following are current project statistics for the Carson, California facility:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number retained for 90 days
ET01-0213	12/31/00-12/30/02	\$147,030	130	115	96	58*

\*An additional 38 trainees are currently in their 90-day retention period. It is anticipated that all 38 trainees will complete the retention period for a contract completion rate of 74%. According to the ETP Contract Status report, the Contractor enrolled 115 of the planned 130, of which 19 have been dropped. The active contract is not at the same facility for which funding is being requested in the proposed agreement.

### **NARRATIVE:**

Headquartered in Carson, California, Leiner Health Products, LLC (LHP) is one of the country's leading manufacturers and distributors of private label vitamins, minerals, and supplements. The company manufactures over 400 different formulations of vitamins, minerals, supplements and 110 over-the-counter drugs. LHP also provides custom services ranging from special formulations, turnkey concept-to-launch product design, and contract manufacturing of existing products. LHP employs 890 Californians at its two manufacturing facilities in Garden Grove and Valencia and its corporate headquarters in Carson.

As both a manufacturer and distributor, Leiner Health Products, LLC is eligible for funding under Title 22, California Code of Regulations, Section 4416 Out-of-State Competition (a)(1,2) since it is involved in the integrated production, distribution and other internal support services provided to its customers located both inside and outside of California.

Increasing consumer demand for alternative drug therapies and nutritional/homeopathic remedies for common health problems has made the nutritional/supplement business increasingly competitive. Consumers are demanding these "new and improved" nutritional formulations at a lower cost and new vitamin manufacturers are regularly entering the marketplace in the hopes of profiting from the high demand for these products. Additionally, the company's main competitors who are located in Michigan

**NARRATIVE:** (continued)

(Perrigo); Florida (Rexall/Sundown); and North Carolina (Royal, Numeco, and Nature's Bounty) have the advantage of manufacturing their products in states where the cost of doing business is significantly lower than in California.

LHP states that its operating expenses in 2001 exceeded its budget by several million dollars, which was due in part to unorganized work processes at its manufacturing facilities and poor communication skills among its employees. To rebound from its financial losses and retain its major customer accounts with Herbalife, Costco, Wal-Mart, Target, Longs, and Krueger, LHP must refocus its business strategies and prioritize current work processes. To expand its market share, LHP must also be able to increase operating efficiencies. Furthermore, Federal Drug Administration (FDA) standards and regulations are constantly changing and becoming more stringent, which directly impacts the way products are manufactured at LHP.

LHP must be able to stay abreast of latest manufacturing requirements, meet customer demands, and develop new products by moving toward becoming a High Performance Workplace. This transition will require a comprehensive training effort that will implement process improvements aimed at increasing efficiency and product consistency, and reducing manufacturing costs. To meet these challenges, LHP requests ETP assistance in retraining 249 frontline workers and 21 supervisors/directors (7% of the training population) in a menu style curriculum consisting of continuous improvement, manufacturing processes, computer skills and literacy skills.

**Continuous Improvement** skills training will promote teamwork among all employees, eliminate variation of work product, and provide the skill sets necessary to identify problems and improve processes. This training will also develop each trainee's ability to lead and influence teams, improve quality, reduce cycle time, and increase on-time delivery rates.

Production personnel will receive **Manufacturing Skills** training in manufacturing operations, various product lines, and best manufacturing practices; thus allowing individuals to move from one production line to another to cover day to day absences of key employees, reduce rework and decrease scrap. Production Workers will also learn to perform routine maintenance on the machines they operate, thus decreasing machine downtime and freeing up the maintenance mechanics for the more complicated machinery repairs.

**Computer Technology** is constantly changing and evolving and employees must remain competent in the latest systems. Administrative, management, engineering and production personnel need training in basic computer operations to utilize the LHP's technology to its fullest extent. These classes will provide trainees with the specific skills to use the company's databases, communicate effectively with both internal and external customers, check inventories and customer orders, and input and retrieve information from LHP's computer system.

Lastly, **Literacy Skills** will provide remedial instruction in Vocational English as a Second Language (VESL) for 115 monolingual frontline workers (43% of the proposed training population) who lack competency in oral and written English skills. These trainees will gain an understanding of general company and manufacturing control forms, be able to read reports and work instructions, and gain a better understanding of workplace terminology; ultimately becoming more valuable employees.

Class/lab training will be shared by outside vendors and in-house trainers. There is no SOST on this project. California Training Cooperative will provide project administration. No personnel who set company policy will be included in this Agreement.

**NARRATIVE:** (continued)

**Supplemental Nature of Training**

Leiner Health Products, LLC is seeking ETP funding because without it, the company would not be able to dedicate the resources necessary for a company-wide training effort. The company states that it has no formal training budget and training offered has been on an as-needed basis. LHP will continue to provide safety training as required by State and Federal law, training in governmental regulations, new hire employee orientation, basic employee supervision, and various technical on-the-job skills. LHP also offers a tuition reimbursement program. The company has certified the proposed ETP-funded training is supplemental to training that the company currently provides.

The proposed ETP funding will enable LHP to provide formal, structured training throughout the organization, thereby providing a solid foundation of skills and establishing a higher level of performance.

LHP states that it will continue to provide continuous improvement skills training in various topics for the twenty-four month period following the conclusion of the ETP funded agreement. The projected cost for this training will be \$50,000.

**In-Kind Contribution**

LHP's projected in-kind contribution towards this project is \$930,394: \$431,161 in trainee wages paid during training, and an additional \$499,233 for training non-funded employees, training development, additional trainer fees and materials costs.

**COMMENTS:**

**Managers**

Participants in this project meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400 (ee) (1,3) except for 21 director/supervisor/managers.

**PROPOSED ACTION:**

Staff recommends that the Panel approve this One-Step Agreement if funds are available and the project meets Panel priorities. This project will ensure that Leiner Health Products, LLC provides its employees with the skills needed to adapt to a high performance workplace and remain viable in the California economy.

**TRAINING PLAN:**

<b>Grp/ Trainee Type</b>	<b>Types of Training</b>	<b>No. Retain</b>	<b>No. Class/Lab Videocnf. Hrs</b>	<b>No. CBT Hrs</b>	<b>No. SOST Hrs.</b>	<b>Cost per Trainee</b>	<b>Hourly Wage after 90 days</b>
Job Numbers 1-7	MENU  Continuous Improvement  Computer Skills  Manufacturing Skills  VESL**	270	40 - 156	0	0	\$520- \$2,028	*\$11.66 - \$48.49
						<b><u>Range of Hourly Wages</u></b> *\$11.66 - \$48.49	
						<b><u>Prevalent Hourly Wage</u></b> \$12.45*	
						<b><u>Average Cost per Trainee</u></b> \$1,228	
<b><u>Health Benefit used to meet ETP minimum wage:</u></b>  * Employer paid health benefits ranging from \$2.12 - \$2.24 per hour may be used to meet the ETP minimum wage requirement of \$11.66 per hour for Orange County and \$11.78 per hour for Los Angeles County.  **Training hours for VESL will not exceed 45% of a trainee's job skills curriculum hours. The maximum amount of VESL training for Job Number 4 is 34 hours and Job Number 7 is 40 hours.						<b><u>Turnover Rate</u></b>  6%	<b><u>% of Mgrs &amp; Supervisors to be trained:</u></b>  7%

**LEINER HEALTH PRODUCTS  
MENU CURRICULUM**

**Hours**  
**Class/Lab**  

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**40 - 136**

**CONTINUOUS IMPROVEMENT**

**Leadership Skills**

- Change and Leading Change
- Finance and Data Analysis
- Continuous Improvement Process
- Critical Thinking and Decision Making
- Operational Excellence - Process Maturity
- Coaching and Feedback
- Process Improvement
- Lean Production (simulation)
- Customer Value Proposition Strategy

**Team Building**

- Cell management
- Train the Trainer
- Leading Continuous Improvement/Process Ownership
- Visual Controls
- Managing Statistical Process Control
- Leading 5S Improvements
- Star Team Roles
- Process Mapping
- Analyzing Processes
- Process Control
- Data Gathering
- Continuous Improvement Tools
- Application to a Selected Process
- Implementation of Assigned Projects
- Report Accomplishments
- Team Building

**Rapid Learning Event (Kaizen)**

- Workplace organization (5S)
- Principles of Lean Manufacturing (simulation)
- Analyze process through walk throughs
- Steps of continuous flow
- Vision of area and flow

- Application to a selected process
- Apply 5S, reliable methods, measurement
- Implementation of assigned projects
- Communicate to others
- Process checks
- Report accomplishments
- Total Productive Maintenance

### **Continuous Improvement/Statistical Process Control**

- Analyzing Processes
- Process Control
- Data Gathering
- Continuous Improvement
- Statistical Process Control
- Designing a Report-Out

### **HPWP (Bridge)**

- Preparing and organizing documentation ideas effectively
- Accurate documentation: spelling, punctuation
- Creating and explaining company documents
- Terminology of measurement tools
- Keeping and explaining records

### **MANUFACTURING SKILLS**

- Job/Technical Skills
- Fette Machine
- Mixing Machine
- Cross Training

### **COMPUTER SKILLS**

- MS Word
- MS Excel
- Internet
- Email

**Hours**  
**Class/Lab**  

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**34 - 40**

**LITERACY SKILLS**

**VESL Intermediate**

- Workplace terminology
- Co-worker communication
- Following directions
- Workplace Processes
- Basics of Written Communication
- Basic vocabulary of Workplace Acronyms

**VESL Beginning**

- Vocational English basics
- Understanding work related concepts
- Workplace terminology
- Following work instructions
- Process terminology
- Written communication
- Problem solving concepts and terminology
- Process improvement concepts and terminology